Bargain Sale

The bargain sale as a charitable giving method or option and used when the value of appreciated gift property exceeds the value of the intended gift and it is impractical to divide the property into a portion to be given and another to be sold. A potential alternative is to sell the property to a qualified charitable organization at a negotiated price significantly below its fair market value. The difference between the sale price and the higher market value is the deductible value of a charitable gift. Here is an example:

Fair market value of gift property	$50,000		100%
Bargain price (sale portion)	(35,000)		70%
Charitable deduction (gift portion)	$15,000	$15,000	30%
Marginal tax rate	X .30		
Tax savings from deduction	$ 4,500	$ 4,500	
Fair market value of gift property	$50,000		
Less cost basis	(20,000)		
Total long-term appreciation	$30,000		
Sale share of transaction	X .70		
Capital gains taxed	$21,000		
Capital gains tax rate	X .20		
	$4,200	(4,200)	
Net tax savings from deduction	$ 300		
Capital gains not taxed	$9,000		
Capital gains tax rate	X .20		
Capital gains tax avoidance	$1,800	$1,800	

NET TAX SAVINGS	$2,100		

The capital gains tax is partially avoided since you must recognize only the gain attributable to the sale portion of the transaction. If the charitable gift portion of a bargain sale is valued at more than $500, you must file IRS Form 8283 with your Form 1040. When the gift portion of a bargain sale is valued at more than $5,000, a qualified independent appraisal may be required. By law, the appraisal is the seller's responsibility and may be a tax-deductible expense.